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REPLY BRIEF FOR PETITIONER

One would be forgiven, after reading the Interim Director's brief, for thinking that this Court had granted certiorari on the question of how 35 U.S.C. § 314, dealing with institution of inter partes reviews before the Patent Trial and Appeal Board, should be interpreted. Fed. Resp. Br. i, 17-45. Indeed, the Interim Director has provided this Court with scantly more than three pages of argument (*id.* at 45-48) addressed to the single question on which certiorari *was* granted—whether the requirement of "a final written decision with respect to the patentability of any patent claim challenged by the petitioner" means what it says (Pet. i)—and even there, he offers little more than a conclusory "*[a] fortiori*" argument in the final sentence of his brief as his complete response on the merits of this important interpretive question. Fed. Resp. Br. 48.

But this case is about one thing: 35 U.S.C. § 318(a)'s mandate of a "final written decision" that addresses every "patent claim challenged by the petitioner." This case is not about the beginning of the inter partes review process, but the end. The proper interpretation of § 318(a)'s "final written decision" requirement does not call upon this Court to review "[t]he determination by the Director whether to institute an inter partes review under this section"—the only thing made "final and nonappealable" under § 314(d).

Because the Interim Director seeks to make this case about § 314 and not § 318, most of his brief is nonresponsive to petitioner's opening brief, leaving almost all of petitioner's showings unrebutted.

The judgment should be reversed.

ARGUMENT

I. THIS CASE IS REVIEWABLE

This Court granted certiorari on a single question—whether 35 U.S.C. § 318(a) means—as it says—that the Board must issue a final written decision on every "patent claim challenged by the petitioner." Pet. i; J.A. 79. Nowhere in that question, nor in the singular re-phrased question in the former Director's Brief in Opposition to certiorari (BIO i), is there any reference to § 314, the section addressing the Director's authority to institute an inter partes review.

Yet the Interim Director now seeks to smuggle a § 314 question into the case. He attempts this first by adding it to his now-plural re-re-statement of the "Questions [*sic*] Presented" (*see* Fed. Resp. Br. i), and then by repeatedly asserting that the § 314 question is actually petitioner's "primary submission" (*id.* at 13), "primary" or "principal argument" (*id.* at 17, 18, 23), or "principal contention" (*id.* at 22, 43, 46).

Repeating that does not make it so. The question on which certiorari was granted is about the proper scope of a final written decision under § 318(a), and does not involve the institution section, § 314, at all, let alone "primar[ily]" or "principal[ly]" so. Even so, the Interim Director actually tries to chide petitioner for failing to "address Section 314(d)'s application to this case." Fed. Resp. Br. 23. Of course petitioner did not address it—the court of appeals did not decide on that ground, and the Court did not grant review on that question.

Section 314(d) provides only that "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and unappealable." Petitioner does not challenge the

Director's "determination . . . whether to institute an inter partes review," for as to that "determination . . . whether," the Director in fact did institute such a review, on petitioner's request. This case instead represents a proper, judicially reviewable appeal, under § 319, by "[a] party dissatisfied with the final written decision of the . . . Board." Even the Federal Circuit recognized this by deciding the issue on its merits, not on any principle of unreviewability. Pet. App. 20a-21a; *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309, 1316-17 (Fed. Cir. 2016).

Section 314(d)'s unreviewability principle has only a narrow, cabined reach. As this Court emphasized in *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016), the Patent Office there overcame the "strong presumption" in favor of judicial review, *Mach Mining, LLC v. EEOC*, 135 S. Ct. 1645, 1651 (2015), only because the review being sought—court review of the Board's discretionary decision to institute inter partes review on claims that were not explicitly challenged by the petition—was "closely tied to the application and interpretation of" § 314(d), which only bars appeals of "determinations . . . to initiate an inter partes review *under this section.*" *Cuozzo*, 136 S. Ct. at 2141 (quoting § 314(d) and adding ellipsis). But the Court was just as emphatic that this holding did not extend to "other questions of interpretation that reach, in terms of scope and impact, well beyond 'this section.'" *Id.* Nor was the Court willing to abide "shenanigans," such as where "the agency . . . act[s] outside its statutory limits." *Id.* at 2141-42.

This case, by contrast to *Cuozzo*, involves another question of interpretation that reaches in scope and impact, "well beyond" § 314(d) and the institution

phase. The question here involves the interpretation of an entirely different section, § 318, and deals with not the Board's discretionary institution decision, but the opposite end of the inter partes review process—the "final written decision" required by its subsection (a). In fact, that "final written decision" is a necessary predicate to the court review provided by § 319; it would be bizarre (and would surely qualify as "shenanigans") if the narrow nonreviewability principle of § 314(d) could limit judicial review of whether the Board issued a proper final decision for which there *is* judicial review. "If a provision can reasonably be read to permit judicial review, it should be." *Cuozzo*, 136 S. Ct. at 2150 (Alito, J., concurring in part and dissenting in part).

Interpretive absurdity and "shenanigans" aside, the Interim Director's nonreviewability argument is a dangerous one, for it would eliminate an essential judicial check on the agency's power to disobey its authorizing statute. The result of such a holding would elevate this federal agency to a super-powered fourth branch of government, empowered not only to rewrite Congress's carefully crafted adjudicative system to suit its own interests (*contra* Pet. Br. 32-44), but to do so without any judicial oversight. *L'etat, c'est l'agence.*

Perhaps the Patent Office in fact knows better than Congress, and perhaps it could have written a superior statute for inter partes review. And surely, the Patent Office (like every agency) would prefer the judiciary to be more supine, and just leave its work alone. But the Patent Office exists only because Congress, exercising its authority under Article I, Section 8, Clause 8 of the Constitution, decided to create that office; the patents that issue from and are reviewed by that office

likewise exist solely because of statutory law that Congress enacts from time to time, and the Patent Office, as with any agency, must act in harmony with its governing statutes. When the agency oversteps its statutory boundaries, that is where courts must step in—"[j]udicial review enforces the limits that *Congress* has imposed on the agency's power." *Cuozzo*, 136 S. Ct. at 2151 (Alito, J., concurring in part and dissenting in part).

The statutory-interpretation question presented by this case is judicially reviewable.

II. SECTION 318(a) REQUIRES A FINAL WRITTEN DECISION ON "ANY PATENT CLAIM CHALLENGED BY THE PETITIONER"

The Interim Director's passing-in-the-night brief means that most of petitioner's showings from its opening brief stand unrebutted. Most significantly, neither respondent takes issue with petitioner's demonstration that the term "any patent claim challenged by the petitioner," as a matter of the plain language used in § 318(a), means "all patent claims challenged by the petitioner." (Indeed, Respondent ComplementSoft goes so far as to urge the Court to interpret the statute "notwithstanding" its "plain-meaning definition." ComplementSoft Resp. Br. 13.) Nor do respondents dispute that the remaining text of § 318(a) is strictly additive—"and any new claim added," post-institution, "under section 316(d)." Nor, for that matter, do respondents dispute petitioner's showings that the Patent Office was delegated no power to alter or supplement the scope of § 318(a) final written decisions by regulation, and that the Patent

Office in fact implemented no regulation purporting to supplement or vary the scope of § 318(a).

Instead, respondents seek to use their § 314 argument as a bootstrap to justify the Board's partial-written-decision practice under § 318(a). According to respondents, when the Board determines to institute review on fewer than all of the claims challenged in a petition, the Board's action constrains the plain meaning of "any patent claim challenged by the petitioner" in § 318(a). Fed. Resp. Br. 46-48; ComplementSoft Resp. Br. 12.

But the statutory text cannot bear the weight that respondents place upon it. Section 318(a) does not say that the Board must issue a final written decision with respect to "any patent claim on which the Director has authorized institution of an inter partes review." Rather, it says broadly, and without limitation, that the Board's final written decision must extend to "any patent claim challenged by the petitioner and any new claim added" by amendment after the inter partes review was instituted.

In § 318(a), Congress chose the term "any patent claim challenged by the petitioner"—a standard that depends only on the decisions of one actor, the petitioner—as the touchstone requirement for a "final written decision." Section 318(a) is otherwise additive—it also requires the final written decision to address "any new claim" added by amendment, whether or not challenged by the petitioner. Neither of those facets of the subsection makes any reference to the Director, or the Board, having the power to narrow the identity of the claims that must be addressed in a final written decision. Had that been what Congress

wanted, it would have written a very different statute. But the entire statutory regime of inter partes review, as it was written by Congress, contains not even a whiff of a hint that "challenged by the petitioner" really means "allowed to proceed, post-institution, by the Board."

Indeed, the Federal Circuit's *Synopsys* decision located only a single textual reason for concluding that the scope of the § 318(a) written decision could be narrower than the scope of the claims challenged in the petition under § 314(a)—the slight difference in language between the two provisions. *See* 814 F.3d at 1315; *compare* § 314(a) ("claims challenged in the petition") *with* § 318(a) ("any patent claim challenged by the petitioner"). But, as petitioner showed in its opening brief, that slight linguistic variation ("in the petition"/"by the petitioner") is compelled by the single event that could take place under the statute, post-institution, to make the "claim[s] challenged by the petitioner" different than those the petitioner challenges "in the petition"—the voluntary cancellation of a "challenged patent claim" under § 316(d)(1)(A). Had § 318(a) been worded using the identical "in the petition" language of § 314(a), the Board would have been obligated to issue decisions on cancelled, nonexistent patent claims. *See* Pet. Br. 27.

Neither the *Synopsys* majority nor respondents here grapple with the obvious fact that the statute defines the scope of the final written decision with reference to which patent claims "the petitioner" is challenging, not to claims for which "the Board" or "the Director" instituted review. This is why the scope of the final written decision is unaffected by the legality *vel non* of the Board's institution practices—there is no textual

link of this kind between the Act's institution provision and its final-written-decision provision. Whether or not the Board is justified in instituting inter partes review on only a subset of claims challenged in the petition, § 318(a) unambiguously requires the Board to issue a final written decision on all "patent claim[s] challenged by the petitioner." The Patent Office was not delegated any authority, in § 316(a) or elsewhere, to elaborate upon or vary the plain terms of § 318(a), and the Patent Office has not purported to do so in its regulations. So it is that statutory language that binds the Board.

With a full final decision, all of the challenged claims can be subject to the estoppel effect prescribed by the statute, and can be appealed to the Federal Circuit. But, by deciding only some of the claims challenged, the Board is not only propagating inefficiencies (*see* Pet. Br. 29 & n.2), but, as in this case, an unreviewable absurdity: Here, the Board instituted inter partes review on claim 4 of the ComplementSoft patent, but not on claim 2. Pet. App. 105a-106a. Claim 4 is narrower (contains additional limitations) than claim 2. Thus, if the narrower claim 4 were unpatentable, claim 2 would "necessarily" be unpatentable. *Cf. Cuozzo*, 136 S. Ct. at 2154 (Alito, J., concurring in part and dissenting in part) (noting that the Board in *Cuozzo* expanded the claims for review at the institution stage for this same reason).

Yet, because of the Board's failure to extend its final written decision to challenged claim 2, petitioner was left without any ability to appeal that adverse determination to the Federal Circuit, or to obtain a remand to the Board for adjudication of claim 2 in view of that court's remand on claim 4. Nor would the

patent owner get any estoppel benefit with respect to claim 2 in the later district court litigation. Instead, without the benefit of a final, appealable, and estopping written decision on claim 2, the parties will have to relitigate the patentability of that claim in the district court. This is exactly the kind of "administrative obstinacy" that, as Judge Newman explained, prevents the statutory provisions from "act[ing] in harmony, like a well-oiled machine." Pet. App. 26a.

III. WERE THE COURT TO REACH THE ISSUE, IT SHOULD CONCLUDE THAT THE BOARD'S PARTIAL-INSTITUTION PRACTICE IS *ULTRA VIRES*

Petitioner did not seek, and this Court did not grant, review with respect to the proper interpretation of § 314. *See* Pet. i; J.A. 79. Indeed, as the Interim Director argues, petitioner had no vehicle within the inter partes review process for challenging the Board's institution decision under § 314(d) and *Cuozzo*. Fed. Resp. Br. 18. However, because the Interim Director seeks to recast this case as a challenge to § 314(a) instead of § 318(a), petitioner responds to that argument out of an abundance of caution.

1. By its terms, the text of the statute cannot be read as allowing "partial" institutions. Nowhere in the entirety of the America Invents Act is there any indication that the Patent Office may institute inter partes review on fewer than all of the claims challenged in a petition.

The closest textual support that the Interim Director has for this proposition is the language of § 314(a) (entitled "THRESHOLD") that sets a probable-

cause-like determination as the standard for initiating inter partes review—"that there is a likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition." *See Cuozzo*, 136 S. Ct. at 2140. Notably, even though Congress used "at least 1 of the claims" in the statute to define the threshold for institution, Congress did not say that the Director could *limit* institution to only those claims for which a likelihood-of-success determination was made. Rather, the Director's finding that "at least 1 claim" satisfies the likelihood-of-success standard is enough to institute inter partes review. The Director could permissibly stop there, as the statute calls only for a "determination," not a reasoned decision. 35 U.S.C. § 314(d) ("determination . . . whether to institute an inter partes review"); *id.* § 314(b) ("[t]he Director shall determine"), (c) ("the Director's determination").

2. Confirming this understanding, § 316(a)(2) commands the Director to "prescribe regulations . . . setting forth the standards for the showing of sufficient grounds to institute a review under section 314(a)." This "explicit grant of authority" (Fed. Resp. Br. 45) extends only to elaborating "the standards for the showing of sufficient grounds" for instituting review. Like § 314(a) itself, this paragraph does not authorize the Director to alter the scope of inter partes review.

3. By asserting authority to institute only partial inter partes reviews, the Board distorts the proper operation of other aspects of the inter partes review regime. Other essential provisions of the Act are built upon the premise that it is the petitioner's petition—not the Director's or Board's selection of claims—that

defines the scope of an instituted inter partes review. This starts with § 311, entitled "Inter partes review." Its subsection (b), entitled "SCOPE," says that the "scope" of inter partes review is defined by the petitioner's request: "*A petitioner* in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent . . . ." (Emphasis added.)

The provisions that follow build upon the understanding that the petitioner, not the Director or Board, has defined the scope of a granted inter partes review. An instituted inter partes review starts with "each claim challenged" in the petition, § 312(a)(3), and then, once institution is granted, allows for the respondent to subtract, from the claims challenged in the petition, any cancelled patent claim, § 316(d)(1)(A), and then add any "substitute" (amended) claim, § 316(d)(1)(B). That equals the proper scope of the "final written decision" under § 318(a): "any patent claim challenged by the petitioner and any new claim added under section 316(d)." The Patent Office's partial-institution practice upends this logical, elegant—and, most importantly, statutorily prescribed—system.

4. That is not all. Partial institutions are also anathema to the estoppel provisions of the Act. As petitioner showed (Pet. Br. 28-31), it makes good sense for petitioners to select the claims for challenge in inter partes review, so that if inter partes review is granted, all—not just some—of the patent claims that the petitioner is likely to face as defendant in an infringement suit can have their patentability adjudicated by the Board. (Or, if inter partes review is denied, the full complement of patent claims can have

their validity adjudicated, without estoppel under § 315, by a district court.)

While the Interim Director seeks to promote partial institutions as an efficiency-enhancing addition to the Act (Fed. Resp. Br. 34-40), it is anything but. As petitioner showed (Pet. Br. 28-32), this approach multiplies parties' litigation burdens, forcing parties like SAS to litigate in a second, district-court forum some of the patentability challenges that could easily have been, as here, adjudicated by the Board. The Department of Justice said it well: "[B]y picking and choosing some but not all of the challenged claims in its Decision, the Board has undermined the Congressional efficiency goal and increased the workload of both parties who are now forced to litigate validity between two forums." Petitioner's Request for Rehearing Pursuant to 37 C.F.R. § 42.71(d), U.S. Patent No. 7,323,980, *Dep't of Justice v. Discovery Patents, LLC*, Case IPR2016-01041 (Patent Trial & Appeal Bd., Nov. 29, 2016); *see* Pet. Br. 30.

The Interim Director nonetheless thinks that the Board's partial-decision approach is more efficient for Patent Office staff. Fed. Resp. Br. 34-35. That is a dubious claim, given that the Board is presently writing what essentially amount to advisory opinions—extensive, unappealable, and un-estopping institution decisions on patent claims for which it is not instituting inter partes review.

Yet, putting aside the fact that the Patent Office is obligated to consider the efficiency interests of all of its stakeholders, not just its own interests, *see* § 316(b), the Interim Director fails to explain why the Patent Office could not effectively—and efficiently—follow

the statute by its terms. *See* Pet. Br. 38-39. For example, if the Board were to institute inter partes review by simply issuing the unreasoned "notice" determination anticipated by the statute, § 314(d), the Board could decide patentability of the challenged claims on a fully developed record, rather than prejudging the case on the limited institution record (*see* §§ 312-313). The Board would then be writing decisions on the same number of claims as present, but the decisions would come in a final written decision at the end of the process, informed by a fully developed record rather than the thin record created by the institution papers, and would make the entirety of the claims challenged by the petitioner both estopping and appealable—just as the design of the statute anticipates.

Or, if the Board were to insist on continuing the practice of extensive institution opinions, the Board could establish standards that make those initial determinations into the equivalent of rulings on motions to dismiss under FED. R. CIV. P. 12, and then carry forward those threshold decisions and merge them into the final decision, just as federal courts do. Pet. Br. 24. It would then take no more additional work than for the Board to say, "We reject petitioner's challenge to claim 2 for the reasons stated in our institution decision." The Board's threshold work on claim 2 would then not be for naught, but would instead be appealable and estopping.

Either of these alternatives would have no adverse effect on the agency's workload, yet would honor the statute that Congress actually wrote.

5. The Interim Director's effort to analogize partial institutions to this Court's practice of granting only some questions presented by a petition for certiorari, or an en banc appellate court's ability to decide cases "on a question-by-question basis" (Fed. Resp. Br. 27) is off base. For one, the Board is a tribunal of first instance, not a court of review—it would be strange for such a filter to be applied at the outset of litigation, and stranger still in view of the statutory language, which plainly makes "the petitioner" the master of its complaint. *See* Pet. Br. 24. For another, neither this Court nor the en banc courts of appeals are bound by a statutory command that they "shall issue a final written decision as to every issue presented" by a petitioner. As to every patent claim challenged by an inter partes review petitioner, though, the Board is so bound by the express language of § 318(a).

The better Board-to-court analogy is found by comparing the district courts—the courts of first instance—to the Board. District court adjudications are not complete unless they comply with the final-judgment rule, which is a useful analog to the "final written decision" requirement of § 318(a). A final judgment, like a final written decision, is the predicate to both appealability, 28 U.S.C. § 1291, and estoppel, *see Arizona v. California*, 530 U.S. 392, 414 (2000) ("It is the general rule that issue preclusion attaches only '[w]hen an issue of fact or law is actually litigated and determined by a valid and final judgment . . . ."). So it should be with § 318(a).

If the Court were to reach the issue, it should conclude that the Board's partial-institution practice is either contrary to the plain language of the statute,

or, in the case of ambiguity, not based on a permissible construction of the statute for the reasons set forth in Section IV, below: The Patent Office's partial-institution practice is a poor fit with the rest of the inter partes review statute, and thereby distorts the entirety of the operation of inter partes review as Congress drafted it.

IV. *CHEVRON* IS NOT A LICENSE TO REWRITE THE STATUTE TO SUIT THE PATENT OFFICE

The Interim Director's effort to shift the ground of analysis from § 318(a) to § 314 is a curious one. It may have been motivated by the fact that the Patent Office finds no specific delegation in § 316(a) to alter the scope of a final written decision, and the further, consequential fact that the Patent Office has promulgated no regulation that addresses the scope of a final written decision. Pet. Br. 34-35. Accordingly, it is the clear, plain language of § 318(a) that resolves this case, and there is no place for administrative deference, under *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984), or otherwise, in the interpretation of § 318(a).

The Interim Director does not defend the Board's application of § 318(a) under *Chevron*; indeed, the only appearance of *Chevron* in the Interim Director's brief comes via his plea that "[t]he USPTO's regulation construing the AIA to permit partial institution is entitled to deference." Fed. Resp. Br. 40-45. But even there, the Interim Director seeks to use *Chevron* to arrogate too much power to his agency.

The Court need not reach this issue, for the clear statutory language answers the question presented in

favor of petitioner. *See* pp. 5-9, above. But if it were to reach the issue, it should hold that the Patent Office was delegated no authority to narrow the scope of a "final written decision," and that the statute is clear and should be enforced at *Chevron* step one without the need for further inquiry. Pet. Br. 32-39.

Alternatively, if the Court were to reach *Chevron* step two, the Court should hold that even if there were room for agency elaboration on the statute, the particular practice of issuing "partial final written decisions" is not "based on a permissible construction of the statute" under *Chevron*, 467 U.S. at 843. As shown above, and in petitioner's opening brief (at 32-41), the Patent Office's administration of the inter partes review statute has transformed the inter partes review regime into an animal bearing little or no resemblance to the one created by Congress. "Deference" is not fealty.

V. RESPONDENTS' REMAINING ARGUMENTS LACK MERIT

The Interim Director and ComplementSoft—which reappears in this case with a merits brief, having failed to file a brief in opposition to certiorari—present a number of other arguments in support of affirmance. None has merit.

1. The fact that "[p]atent [l]aw [i]s [b]ased on a [c]laim-[b]y-[c]laim [a]nalysis" (ComplementSoft Resp. Br. 10) does not give the agency *carte blanche* to issue a final written decision on whatever subset of "patent claim[s] challenged by the petitioner" it chooses. Section 318(a) is written in the language of command ("shall"), not of discretion. Pet. Br. 20. And the further elaboration of that command, that the final written

decision must extend to "any patent claim challenged by the petitioner"—not "some of the patent claims challenged by the petitioner"—confirms that the Patent Office possesses no discretion on the subject of scope. *See United States v. Rosenwasser*, 323 U.S. 360 (1945) (discussed at Pet. Br. 21-23).

2. The Interim Director's reliance on the current statute's predecessors (Fed. Resp. Br. 3, 19) only confirms that petitioner's reading of § 318(a) is the correct one. Neither the ex parte reexamination statute, nor the now-superseded inter partes reexamination statute, contained any requirement that the Patent Office's reviewing Board (then known as the Board of Patent Appeals and Interferences) issue a "final written decision" on all "patent claims challenged by the petitioner." Rather, there was no statutory provision setting forth the requirements of a final, appealable decision, and appeals of Board reexamination decisions under those statutes could be had "with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent" (35 U.S.C. § 306 (2011)).

3. Both respondents suggest that, because inter partes review was never intended to "wholly displace litigation as a means of resolving disputes about patent validity" (Fed. Resp. Br. 37; *see* ComplementSoft Br. 20-25), that renders irrelevant petitioner's—and Judge Newman's—showings that inter partes review was meant to be a "faster, less costly alternativ[e] to civil litigation." Pet. Br. 43 (quoting Sen. Grassley). Respondents miss the point. The point, of course, is that inter partes reviews are intended to be an alternative forum for completely adjudicating those patentability challenges that are

within the Board's ken—the most common ones, anticipation under § 102, and obviousness under § 103, based on prior-art patents or printed publications. Challenges under those two sections constitute almost 60% of the patent-invalidity defenses that are litigated in district courts. Mark A. Lemley & David L. Schwartz, *Understanding the Realities of Modern Patent Litigation*, 92 Tex. L. Rev. 1769, 1787 (2014). The fact that inter partes reviews are, by statute, not more comprehensive is no reason to make them *less* comprehensive than the statute commands.

4. Finally, ComplementSoft's suggestion (ComplementSoft Resp. Br. 26-27) that SAS seeks the wrong remedy from this Court is not well taken. ComplementSoft insists that "the appropriate remedy" is for this Court to "strike down the Board's partial institution rules, vacate the IPR decision that would have been inappropriately rendered, and allow the Board the opportunity to decide again in the first instance whether it still wishes to institute the IPR." In the first place, ComplementSoft—which declined to file a brief in opposition to certiorari—has waived this argument by failing to present it at the certiorari stage. *See* Sup. Ct. R. 15.2; *Carcieri v. Salazar*, 555 U.S. 379, 395-96 (2009). ComplementSoft's preferred remedy would be inappropriate in any event because, again, the challenge in this case is not to the "partial institution rules," but to the Board's partial-final-decision regime.

That said, even the Interim Director himself—who did file a brief in opposition to certiorari, and who expends almost all of his energy on trying to recast this case as a challenge to the partial-institution practice—

does not seek this remedy on behalf of the Board. That is telling, indeed.

* * * *

The Intellectual Property Owners Association (IPO), an international association of over 200 companies and 12,000 individuals who are patent *owners*, and thus subject to inter partes review challenges to their patents, has informed this Court that the Board's interpretation of § 318(a) "undermines the legislative intent" behind inter partes review, and fails to "eliminate abusive practices of pursuing duplicative challenges of invalidity." IPO *Amicus* Br. 2, 12. Patent challengers like SAS, and patent owners like those represented by IPO, would benefit alike from having the statute read and enforced as it was written. That is a good sign that the interpretation of § 318(a) offered by petitioners is the correct one.

CONCLUSION

For these reasons, and those set forth in petitioner's opening brief, the judgment of the Federal Circuit should be reversed, and the case remanded with instructions to order the Patent Trial and Appeal Board to issue a final written decision with respect to the patentability of claims 2 and 11-16 of the '936 patent.

Respectfully submitted,

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RECORD AND BRIEFS

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No. 16-969

In the Supreme Court of the United States

SAS INSTITUTE INC.,

Petitioner,

v.

JOSEPH MATAL, Interim Director, U.S. Patent and Trademark Office, et al.

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* HOUSTON INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF RESPONDENTS

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INTEREST OF *AMICUS CURIAE*

The Houston Intellectual Property Law Association ("HIPLA") is an association of hundreds of lawyers and other professionals who predominately work in the Houston, Texas, area (*see, generally*, www.hipla.org).[1] The practice of most of the HIPLA membership relates in substantial part to the field of intellectual property law. Founded in 1961, HIPLA is one of the largest associations of intellectual property practitioners in the United States. HIPLA represents the interests of its members and has filed *amicus curiae* briefs in this Court and other courts on significant issues of intellectual property law. As an organization, HIPLA has no stake in any of the parties to this litigation.[2]

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[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief.

[2] HIPLA's Amicus Committee and Board of Directors voted on the preparation and submission of this brief. HIPLA procedures require approval of positions in briefs by a majority of directors present and voting.

SUMMARY OF THE ARGUMENT

Congress created *inter partes* review proceedings seeking to "improve patent quality and restore confidence in the presumption of validity that comes with issued patents." *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2140 (2016). In order to accomplish this goal efficiently, Congress allowed the agency broad discretion in deciding whether to review patents challenged by petitioners seeking review. 35 U.S.C. 314(d). That discretion has to permit the agency to pick and choose claims within each patent that it agrees to review. After all, our patent system is built around claims, not entire patents. *See, e.g.*, 35 U.S.C. § 288.

Construing the America Invents Act (AIA) to permit partial institution in *inter partes* review proceedings allows the Patent Trial and Appeal Board (PTAB) to accept review on a significantly larger number of petitions than under Petitioner's all-or-nothing approach. An all-or-nothing approach, on the other hand, makes the agency's challenging task even more difficult, requiring the PTAB to forego review of many weak claims. That approach also dissuades patent owners from filing preliminary responses and discourages settlement between parties, resulting in increased expense and thwarting judicial economy. Such an approach will

likely result in an increase in appeals to the Federal Circuit on an under-developed record at the PTAB. Petitioner's approach thus furthers neither of the goals that the AIA set out for *inter partes* review proceedings. It hinders efficient use of the Board's limited resources and allows unpatentable claims to escape review.

Some have expressed concerns that the AIA's estoppel provisions are ineffective under the agency's approach, but *inter partes* review was never intended to wholly prevent validity challenges in parallel district court litigation. On the other hand, partial institution generally permits patent owners enforcing their rights under a patent to reach resolution sooner rather than later.

The Federal Circuit's decision is consistent with Congress's legislative intent in enacting the *inter partes* review provisions of the AIA and should be affirmed. The PTAB should be permitted to address only those claims for which *inter partes* review is instituted in a final written decision.

ARGUMENT

I. The Agency's Interpretation of Section 318(a) as Not Requiring the Patent Trial and Appeal Board in an *Inter Partes* Review to Issue a Final Written Decision as to Every Claim in the Petition is Correct.

The AIA does not require the PTAB to address in the final written decision on an *inter partes* review every single claim raised in the review petition by a petitioner.

Section 318(a) provides that, "[i]f an *inter partes* review ***is instituted*** and not dismissed," the PTAB "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d)." 35 U.S.C. § 318(a) (emphasis added). Section 318(a) is directed to the portion of the proceeding following the Board's institution decision. The only claims that remain "challenged" at this stage of the proceeding are those for which the Board has instituted review. Section 314(a) plainly requires the Board to undertake a claim-by-claim analysis to determine whether the petitioner has demonstrated "a reasonable likelihood" of prevailing on at least one of the claims challenged in the petition. 35 U.S.C. § 314(a). As a result, at least

some of the claims for which the Board declines to institute review are those on which the petitioner has failed to show even a reasonable likelihood that it would prevail in establishing that the claims are unpatentable. That determination is "final and nonappealable." 35 U.S.C. § 314(d). Requiring the Board's final written decision to address petitioner's unsuccessful challenges to those claims would essentially make the Board's institution decision reviewable. Section 318(a) is therefore best read to exclude such claims as having been "challenged by the petitioner." The agency's interpretation of the AIA to permit partial institution is reasonable.

II. Permitting Partial Institution Promotes Efficiency and Avoids Unnecessary Use of Agency Resources.

"*Inter partes* review is an 'efficient system for challenging patents that should not have issued.'" *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2144 (2016) (quoting H.R. Rep. No. 98, 112th Cong., 1st Sess. 39–40 (2011)). The PTAB is bound by statutory timelines in instituting and completing the review. The PTAB must issue a final determination in an *inter partes* review not later than one year after the date on which it institutes the review. 35 U.S.C. § 316(a)(11). For every instituted claim, the PTAB receives submissions of

evidence from the parties as well as hears argument, in some cases including live testimony, before issuing a final written decision. *See* 37 C.F.R. § 42.70; Amendments to the Rules of Practice for Trials Before the PTAB, 81 Fed. Reg. 18,750, 18,760 (April 1, 2016) (2016 Rule Amendments). Yet, the PTAB regularly meets the one-year statutory time deadline for a final written decision, only rarely extending the allowed time period for good cause.[3] In contrast, resolution of validity challenges in district court takes at least twice that amount of time.[4]

The agency receives an overwhelming volume of review petitions under the AIA—far more than the agency anticipated when it first implemented procedures for the review. For example, the agency had estimated that 500 *inter partes* review petitions

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[3] *See* Daniel Parrish, PTAB Adjusts Deadline for Final Decisions in Rare Cases (June 28, 2017), *available at* https://www.law360. com/articles/939491/ptab-adjusts-deadline-for-final-decisions-in-rare-cases (concluding that the PTAB has met the deadline in 99.8% of post-grant proceedings under the AIA).

[4] The average time to trial in patent cases in a district court is about two and a half years. *See* 2017 Patent Litigation Study, Are we at an inflection point? (Patent Litigation Study), at 22, *available at* https://www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf. Post-trial disputes may further delay final resolution at the district court by months.

would be filed in Fiscal Year 2015. In reality, it received 1,737 petitions.[5] Recent statistics from the agency show that it has received over 6,700 *inter partes* review petitions.[6] For perspective, a total of 5,100 patent cases were filed in district courts across the nation in 2016.[7] And although the PTAB's institution rate in post grant proceedings has dropped from a high of 87% in Fiscal Year 2013, it continues to be close to 70% for the vast majority of petitions.[8] While the PTAB has instituted review in well over half of these *inter partes* review petitions, the number of claims on which review has been instituted is far less than half of the total number of claims challenged in these petitions.[9]

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[5] *See* Patent Trial and Appeal Board Statistics, 9/30/2015, *available at* https://www.uspto.gov/sites/default/files/documents/2015-09-30 PTAB.pdf.

[6] *See* Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board, July 2017 (July 2017 PTAB Statistics), *available at* https://www.uspto.gov/sites/default/files/documents/trial_statistics_july2017.pdf.

[7] *See* Patent Litigation Study, at 1. A different study put that number at 4,520. *See* 2016 Fourth Quarter Litigation Update, Lex Machina (Jan. 12, 2017), https://lexmachina.com/q4-litigation-update/.

[8] *See* July 2017 PTAB Statistics, at 8. Although these numbers are for all AIA proceedings, *inter partes* reviews account for 92% of those proceedings. *Id.* at 3.

[9] PTAB statistics show that out of 4,563 *inter partes* review petitions that had been resolved by March 2017, it had instituted trials on 2,406 petitions. *See* Patent Trial and Appeal Board Statistics, 3/31/2017 (March 2017 PTAB

Even given its limited resources, the PTAB is able to conduct review on well over half of the petitions filed, in part because it is permitted under the statute to institute review on a subset of the claims challenged in each petition.[10] An all-or-nothing approach would force the PTAB to accept review on far fewer petitions than it does today. *See Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309, 1316 (Fed. Cir. 2016) ("nothing in § 314 requires institution of *inter partes* review under any circumstance"). Partial institution therefore allows the Board to limit its review to the weakest of claims challenged. In fact, in 65% of the cases where it has granted review, the PTAB has found all of the claims that it agreed to review to be unpatentable, and at least some of the reviewed claims unpatentable in another 16% of the cases.[11] Requiring the PTAB to

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Statistics) at 10, *available at* https://www.uspto.gov/sites/default/files/documents/AIA Statistics_March2017.pdf. In terms of claims, those institution decisions related to only 32,777 of the 70,060 claims challenged in the petitions. *Id.* at 12. AIA proceeding statistics posted by the agency since March 2017 do not break down institution statistics by the type of proceeding.

[10] One study shows that as of 2015, the Board employed partial institution in over 60% of *inter partes* review petitions. *See* Saurabh Vishnubhakat, et al., Strategic Decision Making in Dual PTAB and District Court Proceedings, 31 Berkeley Tech. L.J. 45, 78 (2016).

[11] PTAB statistics tracking *inter partes* reviews that had reached a final disposition by March 2017 show that the PTAB

institute review of all challenged claims in cases where it finds merely a single claim meeting the "reasonable likelihood" standard forces the Board to forego review in such cases. In its effort to promote efficiency, the PTAB would necessarily have to limit institution to cases with the most number of claims susceptible to invalidity. This does little to further the AIA's goal of improving patent quality. *See Cuozzo*, 136 S. Ct. at 2139–2140 quoting H.R. Rep. No. 98, 112th Cong., 1st Sess. 48 (2011)).

An all-or-nothing approach also makes institution decisions more challenging for the PTAB, requiring consideration of not just the challenged claims but a comparison to other reviews pending institution. The Board is allowed *three months* under Section 314(b) to make a decision regarding institution of an *inter partes* review. In addition to evaluating likelihood of success on the challenged claims, the Board is required to consider whether the petition meets jurisdictional requirements as well as requirements set forth in Section 312. 35 U.S.C. §§ 311, 312. In evaluating claims, the Board also conducts claim interpretation to which it is generally bound throughout the proceeding. *See SAS Inst. Inc. v. ComplementSoft, LLC*, 825 F.3d

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had instituted trials on 2,406 *inter partes* review petitions. *See* March 2017 PTAB Statistics, at 10.

1341, 1351 (Fed. Cir. 2016) (holding that the Board is free to adopt a construction in its final written decision but cannot change theories midstream). Preventing partial institution would further complicate the Board's institution decisions.

Further, an all-or-nothing approach discourages patent owners from filing a response prior to the PTAB's institution decision. The AIA allows the owner of the challenged patent to file a "preliminary response" to the petition, setting forth "reasons why no *inter partes* review should be instituted." 35 U.S.C. § 313. Presently, most patent owners file a preliminary response, greatly assisting the Board in its institution decision.[12] That number is expected to grow as recent amendments to agency's rules on *inter partes* review allow patent owners to offer expert testimony in the preliminary response. *See* 2016 Rule Amendments at 18,755. Because an all-or-nothing approach would reduce institution rates and because an institution would result in review of all challenged claims, a patent owner would undoubtedly be incentivized to save its arguments for the post-institution proceeding when it has had an opportunity to further develop its own

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[12] PTAB statistics show less than 20% of patent owners forego a preliminary response. *See* March 2017 PTAB Statistics. In Fiscal Year 2016, patent owners waived or did not file a preliminary response in only 239 of 1,477 petitions.

evidence and to cross-examine petitioner's expert. Encouraging full disclosure of rebuttal evidence by the patent owner provides the Board with the best available information to decide whether to institute a trial, and may also lead to settlement or other early disposition of the proceeding, resulting in reduced expense and judicial economy. *See* 2016 Rule Amendments at 18,755.

In cases where the Board institutes review, the patent owner would be forced to develop evidence and respond to petitioner's arguments that failed to meet the threshold standard.

An all-or-nothing approach also dissuades settlement between the parties. To date, parties have resolved invalidity challenges, and likely any parallel district court proceedings, through settlement in almost a quarter of the cases in which the Board has instituted review of at least one of the challenged claims.[13] Especially in cases where a parallel district court proceeding is ongoing and only a few of the challenged claims are selected for *inter partes* review, the petitioner has less leverage available through a district court stay or delay

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[13] PTAB statistics show that by March 2017, of the 2,406 cases in which *inter partes* review was instituted, 593 proceedings were terminated through settlement. *See* March 2017 PTAB Statistics. In contrast, only 16% of cases settled before the institution decision.

caused by the Board proceeding. Obtaining a Board resolution on only a fraction of the challenged claims gives the petitioner incentive to settle. But under an all-or-nothing regime, a petitioner has little incentive to settle given that the *inter partes* review and any subsequent appeal could possibly delay district court litigation by well over two years. Likewise, a Board decision not to institute review on any of the challenged claims, whether with or without merit, would likely result in dissuading the patent owner from settlement.

An all-or-nothing approach also results in unnecessary appellate litigation. First, because it would be required issue a final written decision as to all claims challenged in the petition, the Board would need to devote significant time and resources to addressing the patentability of claims for which it may have determined that the petitioner had no reasonable likelihood of success. Although the AIA mandates that that determination is not reviewable, the final written decision laying out that same determination would now be subject to review. As a practical matter, however, the Board's focus during the proceeding would remain on evaluating claims that it believes are likely to be unpatentable, resulting in an under-developed record as to claims on which review should not have been instituted.

The court of appeals would similarly be burdened with reviewing Board decisions based on an under-developed record. Petitioners would be motivated to appeal these institution decisions in hopes of supplementing an otherwise deficient petition, effectively seeking a second bite at the apple and burdening an already busy appellate court.[14]

Notably, the court reviews factual findings of the Board in appeals from *inter partes* review for substantial evidence rather than under a more probing clear error standard. *Merck & Cie v. Gnosis S.P.A.*, 820 F.3d 432, 436 (Fed. Cir. 2016) (O'Malley, J. concurring) (agreeing that "a substantial evidence standard of review is seemingly inconsistent with the purpose and content of the AIA," but it is an inconsistency for Congress to correct). Thus, an all-or-nothing approach not only forces institution on claims where review may be unnecessary, it allows

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[14] Federal Circuit statistics show that more than 40% of its currently pending appeals come from the PTAB. *See* United States Court of Appeals for the Federal Circuit, Year-to-Date Activity as of June 30, 2017 (listing 616 currently pending appeals from PTAB proceedings); *see also* Innovator Insights, Sharon Prost, Chief Judge, U.S. Court of Appeals for the Federal Circuit (Sept. 23, 2015), *available at* https://www.ipoef.org/?p=1513 (stating that the number of PTAB appeals has grown a great deal, and is expected to continue to grow).

for possible affirmance of that decision under a deferential review standard.[15]

An all-or-nothing approach thus hinders efficient use of judicial resources in general and the Board's limited resources in particular. It is also fundamentally unfair to require the patent owner to defend all challenged claims when the petitioner failed to meet its burden in the first instance.

III. Permitting Partial Institution Does Not Significantly Alter the Limited Estoppel Available to Patent Owners Under the AIA.

Some, including the petitioner in this case, have argued that partial institution allows petitioners a second chance to litigate the invalidity of certain claims because the PTAB failed to institute *inter partes* review on them, thereby avoiding estoppel under Section 315(e). *See* 35 U.S.C. § 315(e). While it is true that *inter partes* review estoppel can help limit a petitioner's invalidity challenges in district court litigation, it is not intended to, and in reality

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[15] To date, the court has affirmed the PTAB on every issue in almost 75% of the appeals, and without any written opinion on many occasions. *See* AIA Blog, Federal Circuit PTAB Appeal Statistics (Aug. 1, 2017), *available at*, http://www.aiablog.com/cafc-appeals/federal-circuit-ptab-appeal-statistics-august-1-2017.

simply does not, replace the invalidity portion of the district court litigation. *Inter partes* review is limited to invalidity challenges that could be raised under Section 102 or 103 and only on the basis of prior art consisting of patents or printed publications. 35 U.S.C. § 311(b). In contrast, a variety of other invalidity grounds are available to the petitioner in the district court litigation. *See Synopsys*, 814 F.3d at 1316 ("*Inter partes* review cannot replace the district court in all instances, for example, when claims are challenged in district court as invalid based on the on-sale bar, for claiming patent-ineligible subject matter, or on grounds of indefiniteness.").

Moreover, Section 315(e) is limited to "any *ground* that the petitioner raised or reasonably could have raised during that *inter partes* review." 35 U.S.C. § 315(e)(2) (emphasis added). It does not even wholly exclude a petitioner from relying on *other grounds* based on the same prior art patents or printed publications. For example, petitioner may freely use the same prior art publications in support of invalidity challenges under the on-sale bar or Section 102(g). *See, e.g., Depomed, Inc. v. Purdue Pharma L.P.*, No. CV-13-571, 2016 WL 8677317, at *8 (D.N.J. Nov. 4, 2016) (citing *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293, 1300 (Fed. Cir. 2016), *cert. denied*, 137 S. Ct. 374

(2016)) (finding that "the estoppel provisions of 35 U.S.C. § 315(e)(2) do not apply to [petitioner's] on-sale bar or [pre-AIA] § 102(g) defenses"). Thus, even if estoppel under Section 315 were to extend to all claims challenged and all grounds raised in the petition, it would be unimaginable that there would be no invalidity challenges in the district court litigation following the *inter partes* review. On the other hand, partial institution puts fewer claims at risk through the entire proceeding and potential appellate review. It allows the patent owner to focus its infringement case in the district court on claims that are no longer part of the PTAB proceeding.

As to concerns that partial institution may allow avoidance of estoppel under Section 315(e)(1), an expanded panel of the PTAB has set out procedures that seek to avoid such abuse of the inter partes review proceedings. *See Gen. Plastic Indus. Co., Ltd., Petr. v. Canon Kabushiki Kaisha*, No. IPR2016-01357, Paper 19, 2017 WL 3917706, at *7 (P.T.A.B. Sept. 6, 2016) (listing out factors that it considers in denying "follow-on" petitions that seek to avoid estoppel following a denial of institution).

On balance, the harm threatened to a patent owner under the Petitioner's approach is likely greater than any harm that the patent owner faces through the loss of a few estoppel arguments under

the Board's present interpretation of the statute. And while there may be perceived shortcomings in the implementation of the *inter partes* review proceeding, the relief requested by Petitioner is not the appropriate solution.

IV. The Board Should Not be Required to Address Every Claim in its Final Decision.

The alternate approach offered by the Petitioner is just as unappealing. Petitioner suggests that the Board forego "extensive, unreviewable, and non-estopping preliminary opinions" at the institution stage and instead provide a "simple thumbs-up 'notice' to the parties." *See* Br. at 37–38. Petitioner appears to propose that the portions of preliminary opinion relating to any claims on which *inter partes* review was not instituted be included in the final written decision along with portions relating to claims that the Board did conduct a review on. *Id.* at 38. This makes little sense. *See Synopsys*, 814 F.3d at 1315 ("[T]he statute would make very little sense if it required the Board to issue final decisions addressing patent claims for which *inter partes* review had not been initiated.").

Even if the Board were to merely include its prior non-institution decision in its final written decision, such a decision would be subject to review in its entirety by the Federal Circuit. 35 U.S.C. § 319. As

such, the parties would be forced to develop a record as to all claims, including those on which there is no reasonable likelihood of an invalidity finding by the Board. The Board's institution decision helps focus the parties on claims that the Board will in fact analyze and rule on. In spite of the short statutory period in which the Board is required to make a decision regarding institution, the Board has endeavored to provide parties with preliminary opinions that are helpful in focusing the parties on issues that matter. *See, e.g.*, Intellectual Property Owner's Ass'n Br. at 10 (listing PTAB decisions). For example, the Board regularly issues preliminary claim construction in its institution decisions, a determination that is key to resolving any invalidity challenge.[16] A proposal to dispense with the Board's preliminary opinion in favor of a single written decision at the end of the proceeding is bound to increase expense and thwart judicial economy. Petitioner's proposed alternative approach therefore presents more problems than it solves.

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[16] *Every Penny Counts, Inc. v. Am. Express Co.*, 563 F.3d 1378, 1381 (Fed. Cir. 2009) ("The purpose of claim construction is to determine the meaning and scope of the patent claims"); *Homeland Housewares, LLC v. Whirlpool Corp.*, 865 F.3d 1372, 1375 (Fed. Cir. 2017) (holding that when the parties raise an actual dispute regarding the proper scope of claims the Board "must resolve such disputes in the context of IPRs").

CONCLUSION

HIPLA respectfully asks this Court to rule that 35 U.S.C. § 318(a) does not require the PTAB to conduct review of or issue a final written decision as to every claim that a petitioner challenges in the *inter partes* review petition.

Respectfully submitted.

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